Interest expense decreased principally due to the effects of lower interest rates, partially offset by increased debt of approximately $1.8 billion used to fund new initiatives, including the investment in TWE. U S WEST's average borrowing cost decreased to 6.7 percent from 7.7 percent in 1992. (See "Liquidity and Capital Resources" for a discussion of the impact of the company's debt refinancings.)

Other income (expense) - net includes equity losses, associated with developing businesses, of $74.4, compared to $42.7 in 1992. The increase in these losses is primarily due to new investments, including the company's investment in personal communications services in the United Kingdom.

Restructuring Charges

The company's 1993 operating results reflect a pretax restructuring charge of $1 billion ($610 after tax). The restructuring charge includes specific, incremental and direct costs that can be estimated with reasonable accuracy and are clearly identifiable with the related plan.

The restructuring plan is designed to provide faster, more responsive customer services, while reducing the costs of providing these services. As part of the plan, the company will develop new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so customers can have their telecommunications needs resolved with one phone call. The company will also reduce its work force by approximately 8,000 employees by the end of 1996 (in addition to a remaining reduction of 1,000 employees pursuant to the 1991 restructuring plan) and consolidate the operations of its existing 560 customer centers into 26 centers in 10 cities.

Following is a schedule of the costs included in the restructuring charge:

Employee separation	$ 240
Real estate	120
Relocation	110
Retraining and other	65
Systems development	400
Asset write-downs	65
Total	$1,000

Employee separation costs include severance payments, health care coverage and postemployment education benefits. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the sites of the new service centers and retraining employees on the new methods and systems required in the new, restructured mode of operation. Systems costs include the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. The work-force reductions would not be possible without the development and installation of the new systems, which will eliminate the current, labor-intensive interfaces between existing systems.

The estimated annual cash expenditures related to the restructuring plan are approximately $390, $315 and $225 in 1994, 1995 and 1996, respectively. In addition to these expenditures, the company anticipates incremental capital expenditures related to the restructuring plan of approximately $490 in the next three years.

The 1993 restructuring plan is estimated to reduce cumulative total employee and related costs by approximately $525 during the next three years, starting in 1994. These savings are expected to be largely offset by higher employee salaries and wages for the remainder of the work force.

The company's 1991 restructuring plan included a pretax charge of $363.8 ($229.9 after tax) due to planned work-force reductions and the write-off of certain intangible and other assets. The work-force reductions covered approximately 6,000 employees, of which approximately 5,000 have left the company as of December 31, 1993. The portion of the 1991 restructuring charge related to work-force reductions was $240, of which approximately $56 was unused at December 31, 1993.

PROVISION FOR INCOME TAXES

	1993	1992	Decrease $	Decrease %
Provision for income taxes	$268.8	$493.4	$(224.6)	(45.5)
Effective tax rate	36.1%	31.4%	—	—

Continuing operations basis.

The increase in the effective tax rate ("ETR") resulted primarily from the $54.0 cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates and the effects of discontinuing SFAS No. 71, partially offset by the tax effects of the restructuring charge. (See Note 11 to the Consolidated Financial Statements.)

In 1994, the ETR is expected to rise to approximately 37.5 percent primarily because of the full-year impact of discontinuing SFAS No. 71.

In 1993, U S WEST implemented SFAS No. 109, "Accounting for Income Taxes." Adoption of the new standard did not have a material effect on the company's financial position or results of operations, primarily because of the company's 1989 adoption of SFAS No. 96 which reflected deferred income taxes at current income tax rates.

OTHER ITEMS

Competitive Environment

Historically, communications, entertainment and information services were provided by different companies in different industries. The convergence of these technologies is changing both the competitive environment and the way U S WEST does business. This convergence, which is being fueled by technological advances, will lead to more intense competition from companies with which U S WEST has not historically competed. U S WEST became the first of the regional holding companies to potentially compete beyond its region through its investment in TWE. (See "U S WEST Competitive Strategy.")

U S WEST Communications' principal current competitors are competitive access providers ("CAPs"). Competition from CAPs is currently limited to providing large business customers (with high-volume traffic) private line access to the facilities of interexchange carriers. In coming years, CAPs could also become significant competitors for other local exchange services. MCI announced plans in early 1994 to build fiber-optic rings and local switching infrastructure in major metropolitan markets, hence providing the ability to compete directly with the local telephone company. Additionally, AT&T's entrance into the cellular communications market through its proposed acquisition of McCaw Cellular Communications Inc. has the potential to create increased competition in local exchange as well as cellular services. The loss of local exchange customers to competitors would affect multiple revenue streams, including those related to local and access services, and long-distance network services, and could have a material, adverse effect on the company's operations. (See "U S WEST Competitive Strategy.")

Competition from long-distance companies continues to erode U S WEST Communications' market share of intraLATA long-distance services such as WATS and "800." These revenues have declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. U S WEST and its affiliates are prohibited from providing interLATA long-distance services.

The actions of state and federal public policymakers will play an important role in determining how increased competition affects U S WEST. The company is working with regulators and legislators to help ensure that public policies keep pace with our rapidly changing industry — and allow the company to bring new services to the marketplace.

U S WEST supports regulatory reform. It is increasingly apparent that the legal and regulatory framework under which the company operates, which includes restrictions on equipment manufacturing, prohibitions on cross-ownership of cable TV by telephone companies and the provision of cable TV programming content, and restrictions on the transport of voice, video and data across LATA boundaries, limits both competition and consumer choice. U S WEST believes that it is in the public interest to lift these restrictions and to place all competitors under the same rules to ensure the industry's technological development and long-term financial health.

U S WEST Competitive Strategy

U S WEST intends to implement its competitive strategy by focusing on three key objectives: 1) business growth through the development of broadband networks and a broadened wireless presence; 2) customer loyalty through continuous improvement in customer service; and 3) improved productivity through systems re-engineering and other cost controls. This strategy is directed both domestically (in-region and out-of-region) and internationally.

U S WEST will continue to employ strategic alliances in new and developing businesses. In addition to strategic alliances, the company will make direct investments in assets or businesses that are consistent with the company's competitive strategy. Such investment activities could require large amounts of capital. Financing for any of these types of activities will come from a combination of debt, equity and proceeds from the disposition of the Capital Assets segment and other assets or businesses that no longer fit U S WEST's strategic objectives. The company may also seek new investors to raise capital for certain developing businesses.

Base Businesses

In 1993, the company announced its intention to build a "broadband," or high speed, interactive telecommunications network capable of providing voice, data and video services to customers in major metropolitan markets within the U S WEST region. Assuming FCC approval, U S WEST Communications anticipates converting about 100,000 access lines to this technology by the end of 1994 and 500,000 access lines annually beginning in 1995. This network modernization program will position U S WEST Communications to compete with all future providers of voice, data and video services. Technical and marketing trials of the broadband network will commence in the second and third quarters, respectively, of 1994.

U S WEST Communications obtained approximately $200 of revenues from new products and services during 1993, an increase of approximately $65, or 47 percent, from 1992. Significant new products include voice messaging, now three years old with an installed customer base exceeding 690,000, and Custom Local Area Signaling Services, which include features such as caller name and number identification. To meet the demand for high-speed data communications, U S WEST Communications has introduced products such as frame relay service, which enables companies with computer networks to exchange large volumes of data.

The 1993 restructuring plan supports U S WEST's objectives to improve customer services and increase productivity, while continuing to narrow its cost of service disadvantage with current and potential competitors. Employee-related costs comprise approximately 45 percent of the total operating costs of U S WEST. The company will continue its efforts to control these costs, primarily through systems improvements and reductions in staffing. At U S WEST Communications, the number of employees per ten thousand access lines decreased by 8.7 percent in 1993, and has dropped 17.8 percent since 1990. The company anticipates that this trend will continue.

Future growth within the company's publishing operations is centered around: 1) improved performance in the core Yellow Pages through increased customer satisfaction and product enhancements; 2) the introduction of data-base marketing services; and 3) the introduction of interactive information and transaction services.

Developing Businesses — Domestic

U S WEST is expanding its customer base and strengthening its national out-of-region presence by acquiring or forming alliances with other communications, entertainment and information services companies. The first major step towards that goal was the TWE investment, pursuant to which U S WEST acquired on September 15, 1993, 25.51 percent pro-rata priority capital and residual equity interests in TWE. TWE owns and operates substantially all of the entertainment assets previously owned by Time Warner Inc., consisting primarily of its filmed entertainment, programming - HBO and cable businesses. In connection with the TWE investment, the company acquired 12.75 percent of the common stock of Time Warner Entertainment Japan Inc., a joint venture company established to expand and develop the market for entertainment services in Japan.

U S WEST and TWE intend to upgrade a substantial portion of TWE's cable systems to "Full Service Network™"

capacity in the next five years. U S WEST and TWE will jointly designate the systems to be upgraded and share management control over those systems. Each Full Service Network, when completed, will utilize fiber optics, digital compression, digital switching and storage services to provide consumers with a wide variety of services, including video-on-demand, interactive games, distance learning, full motion video, interactive shopping, and alternative access and local telephone services.

In 1993, the company's domestic cellular customer base grew to approximately 600,000, up 45 percent from the year before. To maintain a high growth rate, the company is focusing significant attention on upgrading its cellular systems and increasing its penetration in the consumer market. Furthermore, the company is anticipating increased competition as new personal communications services ("PCS") enter the wireless market. The company anticipates that it will be a participant in PCS.

Developing Businesses — International

In the international arena, U S WEST is focusing its efforts on certain strategic businesses, primarily in the United Kingdom ("U.K."), where the company is able to participate directly in the convergence of cable TV and telecommunications. The U.K. market is unique because its regulatory policies allow cable TV operators to also provide telephone service in their franchise areas. Strategic alliances will be used internationally where U S WEST and its partners can leverage their respective technological resources and management expertise.

During 1993, U S WEST continued expanding its international ventures. TeleWest Communications ("TeleWest"), a joint venture with Tele-Communications Inc., is the largest provider of combined cable TV and telephone service in the U.K. With the 1993 purchase of seven franchises, TeleWest now owns all or part of 24 franchises, encompassing 3.3 million homes. Also in 1993, four TeleWest operating systems installed their own local telephone switches. All franchises are expected to operate their own telephone switches by the end of 1994, thus eliminating some costs to interconnect with other carriers' systems.

In the U.K., Mercury One-2-One, a 50-50 joint venture between U S WEST and Cable & Wireless PLC, launched the world's first PCS in 1993. Mercury One-2-One's PCS is a form of digital cellular communications designed to offer consumers both higher quality service and more features at lower prices than existing analog cellular communications systems. Initial orders for the service are exceeding expectations.

In December 1993, U S WEST sold a 29 percent interest in its Russian ventures to seven institutional investors for $40, raising new funds for investment in new telecommunications projects in Russia.

The company's net investment in international ventures approximated $477 at December 31, 1993, 70 percent of which is invested in the U.K. The company's future commitment to existing international ventures is currently planned at about $450 over the next five years. The company will continue to pursue opportunities in attractive local markets around the world that fit its strategic objectives.

Federal Regulatory Issues

In September 1993, the FCC approved rules for licensing new PCS, which include making local exchange companies eligible for any PCS license except where they are affiliated with a cellular carrier. Cellular licensees will be permitted to bid for a 30-megahertz PCS license outside their existing service areas and a 10-megahertz license within their existing areas. The FCC also announced that it would auction the spectrum frequencies available for PCS in late 1994. The company intends to pursue PCS opportunities as they become available.

On August 3, 1993, the FCC announced that it will require that certain telephone companies, including U S WEST Communications, allow competitive access providers to interconnect directly to a local telephone company's switching equipment. The decision extends the current collocation requirement applicable to special access (i.e. private line) services to local transport for switched access services. The effect of this decision will be to increase competition and lower prices for interstate access services provided to interexchange carriers. The FCC has granted local telephone companies subject to this requirement additional pricing flexibility.

U S WEST's interstate services have been subject to price cap regulation since January 1991. Price caps are a form of incentive regulation and, ostensibly, limit prices rather than profits. However, the FCC's price cap plan includes sharing of earnings in excess of authorized levels with interexchange carriers. The company believes that competition will ultimately be the determining factor in pricing telecommunications services. In January 1994, the FCC announced that it will begin reviewing its current form of regulation.

The FCC has adopted a regulatory structure known as "Open Network Architecture," under which U S WEST Communications is required to unbundle its telephone network services in a manner that will accommodate the service needs of the growing number of information service providers.

State Regulatory Issues

At U S WEST Communications, there are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the commission finds that either of the exceptions apply, the company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.

U S WEST Communications has sought alternative forms of regulation ("AFOR") plans that provide for competitive parity, enhanced pricing flexibility and improved capability in bringing to market new products and services. In a number of states where AFOR plans have been adopted, such actions have been accompanied by agreements to refund revenues, reduce existing prices or upgrade service, any of which could have adverse short-term effects on earnings. Similar agreements may have resulted under traditional rate-of-return regulation.

In addition to the FCC price cap plan, U S WEST Communications has AFOR plans in the states of Washington, Minnesota, Oregon, Colorado, Idaho, Nebraska, North Dakota and South Dakota.

Discontinued Operations

During the second quarter of 1993, U S WEST announced that it would dispose of its Capital Assets segment. In December 1993, U S WEST sold $2.0 billion of finance receivables and the business of U S WEST Financial Services to NationsBank Corporation. The sales price was in line with the company's estimate. Proceeds from the sale of $2.1 billion were used to repay related debt and to reinvest in communications businesses.

During 1993, U S WEST Real Estate Inc. sold five properties for proceeds of approximately $60. In January 1994, two properties were sold for approximately $230. The sales were in line with company estimates. The company anticipates disposing of the remainder of its real estate portfolio during the next several years.

The company believes its reserves related to discontinued operations are adequate. (Further details on the discontinued operations are provided in Note 13 to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities increased by $80.5, or 2.5 percent, from 1992, primarily due to growth in base businesses, partially offset by a $200 increase in postretirement benefit funding. Additionally, 1992 cash provided by operating activities included the effect of an income tax refund of approximately $125. Cash from operations is the primary source by which U S WEST funds its capital expenditures and shareholder dividends. The company expects that cash from operations will fund a significant share of expected future requirements for existing businesses. Additional financing, including that related to new investment opportunities, will be met through debt, equity and the proceeds from disposition of the Capital Assets segment and other assets or businesses that no longer fit U S WEST's strategic objectives.

In the last 12 to 18 months, U S WEST has actively pursued a strategy of refinancing its long-term debt to obtain lower interest rates. During 1993, U S WEST refinanced debt issues aggregating $2.7 billion in principal amount. The company expects an annual interest expense reduction of approximately $35 as a result of this refinancing.

Debt increased by approximately $1.8 billion compared to the prior year (including $1.2 billion of short-term debt), principally as a result of the company's investment in TWE.

The company has benefited from the decline in short-term interest rates by increasing its use of short-term financing. U S WEST maintains a commercial paper program to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market. U S WEST will ultimately seek long-term refinancing of a portion of its short-term debt, though the timing of this refinancing is uncertain. The company could be exposed to higher interest costs on the short-term portion of its debt in the event of an abrupt increase in interest rates.

U S WEST's reported 1993 debt-to-capital ratio was 55.1 percent compared to 39.6 percent at December 31, 1992. The increase in the debt-to-capital ratio was primarily attributable to the effects of the discontinuance of SFAS No. 71, which reduced shareowners' equity by $3.1 billion. Debt used to finance developing businesses also contributed to the increase.

Including debt related to discontinued operations, the debt-to-capital ratio was 59.7 percent and 51.7 percent at December 31, 1993 and 1992, respectively.

Debt related to discontinued operations decreased by approximately $1.9 billion in 1993. (See Note 13 to the Consolidated Financial Statements.) For financial reporting purposes this debt is netted against the related assets of the discontinued operations.

The company maintains short-term lines of credit aggregating approximately $3 billion, all of which were available at December 31, 1993. Under registration statements filed with the Securities and Exchange Commission, as of December 31, 1993, U S WEST companies were permitted to issue up to approximately $2.1 billion of new debt securities.

U S WEST uses various financial instruments for purposes of managing financial risk. The company enters into forward contracts to hedge debt refinancings when there is a belief that interest rates may rise or during periods of significant volatility in the credit markets. The company enters into foreign currency forward contracts to hedge investments in foreign entities. When market conditions permit, the company also enters into interest rate swap agreements to obtain lower-cost financing than that available through traditional forms of financing.

Total capital expenditures were $2,441.2 in 1993 and $2,554.2 in 1992. Capital expenditures at U S WEST Communications were $2,181.9 in 1993 and $2,356.6 in 1992. The 1993 capital expenditures of U S WEST Communications were substantially devoted to the continued modernization of telephone plant, including investments in fiber optic cable and the conversion of central offices to digital technology, in order to improve customer service and network productivity. In 1994, capital expenditures are expected to approximate $2.6 billion, including $2.3 billion at U S WEST Communications.

The company's dividend growth rate has slowed in recent years due to U S WEST's commitment to its developing businesses. Dividends increased by $.02, to $2.14 per share in 1993, an increase of .9 percent. Continued dividend growth could be affected by projected financing requirements related to strategic investments.

During the fourth quarter, proceeds of $1,020.0 resulting from the sale of 22 million shares of common stock were used to reduce short-term indebtedness, including indebtedness incurred in conjunction with the TWE investment, and for general corporate purposes. This issuance, along with approximately 5.6 million shares of common stock to be issued in March 1994 in connection with the settlement of shareholder litigation ("Rosenbaum v. U S WEST Inc. et al."), for proceeds of approximately $210, will have a dilutive effect on 1994 earnings.

RESULTS OF OPERATIONS - 1992 COMPARED TO 1991

	1992	1991*	Increase (Decrease) $	Increase (Decrease) %
Income from continuing operations	$ 1,075.8	$ 839.6	$ 236.2	28.1
Income (loss) from discontinued operations	103.6	(286.2)	389.8	—
Cumulative effect of change in accounting principles	(1,793.4)	—	(1,793.4)	—
Net income (loss)	$ (614.0)	$ 553.4	$(1,167.4)	—
Earnings per share from continuing operations	$ 2.61	$ 2.09	$ .52	24.9
Earnings (loss) per share from discontinued operations	.25	(.71)	.96	—
Cumulative effect of change in accounting principles	(4.35)	—	(4.35)	—
Earnings (loss) per share	$ (1.49)	$ 1.38	$ (2.87)	—

*1991 income from continuing operations was reduced by $229.9, or $.57 per share, and income from discontinued operations was reduced by $360.1, or $.90 per share, as a result of a restructuring charge.

In 1992, income from continuing operations was $1,075.8 and related earnings per share were $2.61. In 1991, excluding a restructuring charge, income from continuing operations was $1,069.5, and related earnings per share were $2.66. Excluding the effects of the 1991 restructuring charge, 1992 income from continuing operations increased by $6.3, or .6 percent, and related earnings per share decreased by $.05, or 1.9 percent, on more shares outstanding.

Income from discontinued operations increased by $29.7, or 40.2 percent, excluding the effects of a 1991 valuation allowance related to real estate operations and a write-off of intangible assets related to financial services that reduced 1991 income from discontinued operations by $360.1. Improved operating margins in financial services (primarily as a result of lower interest expense), increased investment income associated with financial guarantee insurance activities and the absence of real estate losses contributed to the increase. Due to phasing out the operations of U S WEST Real Estate Inc., related 1992 operating losses were charged against the valuation allowance.

The accounting change relates to two recent accounting standards issued by the Financial Accounting Standards Board. The first is SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which mandates that employers reflect in their current expenses an accrual for the cost of providing retirement medical and life insurance benefits to current and future retirees. Prior to 1992, U S WEST, like most corporations, recognized these costs as they were paid. U S WEST also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires that employers accrue for the estimated costs of benefits, such as workers' compensation and disability, provided to former or inactive employees who are not eligible for retirement. Adoption of SFAS Nos. 106 and 112 resulted in a one-time, non-cash charge against 1992 earnings of $1,793.4 (after tax), including $52.7 related to SFAS No. 112.

INCOME FROM CONTINUING OPERATIONS: BASE AND DEVELOPING BUSINESSES

	1992	1991	Increase $	Increase %
Base businesses:				
U S WEST Communications	$ 950.0	$798.5	$151.5	19.0
Publishing and other	206.8	139.8	67.0	47.9
Total base	1,156.8	938.3	218.5	23.3
Developing businesses	(81.0)	(98.7)	17.7	17.9
Income from continuing operations	$1,075.8	$839.6*	$236.2	28.1

*1991 income from continuing operations was reduced by $229.9, or $.57 per share, for a restructuring charge.

Income from base businesses was essentially flat, absent the effects of the 1991 restructuring charge. The ongoing impact from the adoption of SFAS No. 106 was offset by operating improvements in telephone, cellular and publishing operations and lower international joint venture losses.

SALES AND OTHER REVENUES

	1992	1991	Increase (Decrease) $	%
Base businesses:				
U S WEST Communications operations:				
Local service	$3,674.3	$3,500.6	$173.7	5.0
Access charges - interstate	2,046.9	2,023.4	23.5	1.2
Access charges - intrastate	672.8	649.7	23.1	3.6
Long-distance network service	1,419.7	1,462.7	(43.0)	(2.9)
Other services	510.0	528.0	(18.0)	(3.4)
Total U S WEST Communications	8,323.7	8,164.4	159.3	2.0
Publishing and other	1,092.3	1,038.8	53.5	5.2
Total base	9,416.0	9,203.2	212.8	2.3
Developing business:*				
Domestic cellular	406.6	324.9	81.7	25.1
Total revenues	$9,822.6	$9,528.1	$294.5	3.1

*With the exception of domestic cellular, which is a consolidated subsidiary, substantially all of the company's investments in developing businesses are in ventures that are accounted for using the equity method.

An analysis of the change in U S WEST Communications' revenues follows:

Local Service

Price Increases	Lower Refunds	Demand	Reclassifications and Other	Increase $	%
$.3	$23.2	$167.7	$(17.5)	$173.7	5.0

The increase in local service revenues was primarily attributable to access line growth of 2.9 percent. Refunds in 1992 were significantly less than the prior year.

Interstate Access Charges

Price Decreases	Higher Refunds	Demand	Reclassifications and Other	Increase $	%
$(87.6)	$(5.4)	$125.1	$(8.6)	$23.5	1.2

Increased demand for interstate services, as evidenced by an increase of 6.5 percent in interstate billed access minutes of use, more than offset the effects of price decreases and refunds. U S WEST Communications reduced interstate access prices by $80 annually, July 1, 1991, as a result of the FCC's adoption of price cap regulation for interstate services. Prices were again reduced, by approximately $90 annually, effective July 1, 1992, primarily due to FCC-mandated changes that resulted in a cost shift to intrastate jurisdictions.

Intrastate Access Charges

Price Decreases	Higher Refunds	Demand	Reclassifications and Other	Increase $	%
$(12.4)	$(1.5)	$7.2	$29.8	$23.1	3.6

Intrastate access charges increased primarily as a result of a reclassification of certain revenues from local and long-distance network services. Prior to 1992, private line services were provided primarily to end users under tariffs in effect in most states. These services are now provided to both end users and carriers. Pursuant to the FCC's rules and regulations, private line service provided to carriers has been reclassified from local service and long-distance network service to intrastate access service. The reclassification has no effect on net income. Excluding the effects of the reclassification, intrastate access revenues decreased by $11.4, or 1.8 percent, due to the effects of price decreases and refunds, which more than offset increased demand.

Long-Distance Network Service

Price Decreases	Lower Refunds	Demand	Reclassifications and Other	Decrease $	Decrease %
$(22.2)	$16.1	$(22.3)	$(14.6)	$(43.0)	(2.9)

The decline in long-distance network service revenues reflects the effect of competition (particularly in WATS and "800" services), price decreases and the reclassification of certain private-line revenues to intrastate access service. These effects were partially offset by lower refund activity in 1992. Excluding the reclassification, long-distance network revenues declined 1.8 percent.

Other Services

Other services revenues declined in 1992, with lower revenues from billing and collection services partially offset by increased revenues from voice messaging services.

Publishing and Other

			Increase (Decrease)	
	1992	1991	$	%
Publishing	$ 949.1	$ 890.7	$58.4	6.6
Other - net	143.2	148.1	(4.9)	(3.3)
Total	$1,092.3	$1,038.8	$53.5	5.2

Volume of Yellow Pages directory advertising was essentially flat in 1992, with the increase in publishing revenues the result of price increases.

Domestic Cellular

			Increase	
	1992	1991	$	%
Domestic cellular	$406.6	$324.9	$81.7	25.1

Cellular revenues increased as a result of an expanded cellular customer base, which grew 38 percent in 1992. Average cellular revenue per customer declined 4.7 percent, consistent with industry trends.

COSTS AND EXPENSES

			Increase (Decrease)	
	1992	1991	$	%
Employee-related costs	$3,521.1	$3,303.6	$ 217.5	6.6
Other operating expenses	1,960.9	1,888.6	72.3	3.8
Taxes other than income taxes	377.6	415.8	(38.2)	(9.2)
Depreciation and amortization	1,880.5	1,825.0	55.5	3.0
Restructuring charge	—	363.8	(363.8)	—
Interest expense	453.5	481.4	(27.9)	(5.8)
Other income (expense) - net	(59.8)	(40.6)	19.2	47.3

The increase in employee-related costs is primarily attributable to higher health care costs for active employees as well as the 1992 ongoing impact from the adoption of SFAS No. 106. Basic wage increases largely offset the effects of the work-force reduction initiatives implemented in 1991 at U S WEST Communications.

The increase in other operating expenses resulted from increased marketing costs related to an expanding cellular subscriber base and higher network software costs.

Taxes other than income taxes declined due to adjustments made in 1992 for resolution of certain longstanding appeals.

Depreciation and amortization expense increased as a result of a higher depreciable asset base and increased rates of depreciation sought by U S WEST Communications and provided by regulators in certain jurisdictions. These effects were partially offset by the completion of inside wire and depreciation reserve deficiency amortization programs in several jurisdictions.

Interest expense decreased principally due to the effects of lower interest rates and lower financing needs. U S WEST's average borrowing cost decreased to 7.7 percent in 1992, from 8.3 percent in 1991.

PROVISION FOR INCOME TAXES

			Increase	
	1992	1991	$	%
Provision for income taxes	$493.4	$369.7	$123.7	33.5
Effective tax rate	31.4%	30.6%	—	—

Continuing operations basis.

The increase in the ETR is a result of the $363.8 restructuring charge in 1991. Excluding the effects of the restructuring charge, the 1991 ETR would have been 31.7 percent.

OTHER ITEMS

1991 Restructuring Charge

The company's 1991 income from continuing operations reflects a restructuring charge of $363.8 ($229.9 after tax) due to planned work-force reductions and the write-off of certain intangible and other assets. Approximately $240 of the restructuring charge relates to a reserve for planned work-force reductions totaling 6,000 employees over three years at U S WEST Communications. During 1992, U S WEST Communications reduced its employee level by approximately 2,300 employees.

During 1991, U S WEST also established a $500 valuation allowance related to the phasing out of real estate operations, now included as part of discontinued operations in the Consolidated Financial Statements. Discontinued operations also include a restructuring charge of $50 related to the write-off of intangible assets.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities increased by $484.2, or 17.5 percent, from 1991. The effects of lower financing costs and an income tax settlement of approximately $125 contributed to improved cash flow from operations.

Debt, excluding that related to discontinued operations, decreased by approximately $539 compared to the prior year. During 1992, U S WEST refinanced six debt issues aggregating $747 in principal amount.

Capital expenditures were $2,554.2 in 1992, compared with $2,425.5 in 1991. Capital expenditures at U S WEST Communications were $2,356.6 in 1992 and $2,168.2 in 1991. The 1992 capital expenditures of U S WEST Communications were substantially devoted to the continued modernization of telephone plant.

REPORT OF MANAGEMENT

The consolidated financial statements of U S WEST have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The integrity and objectivity of information in these financial statements, including estimates and judgments, are the responsibility of management as is all other financial information included in this report.

U S WEST maintains a system of internal accounting controls designed to provide a reasonable assurance as to the integrity and reliability of financial statements, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes an internal audit program designed to objectively assess the effectiveness of internal controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. U S WEST believes that the company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent certified public accountants, whose report is included herein, are engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Audit Committee of the board of directors. The Audit Committee is composed of outside directors who meet regularly with management, internal auditors and independent auditors to review financial reporting matters, the scope of audit activities and the resolution of audit findings.

Richard D. McCormick
Chairman and Chief Executive Officer

James M. Osterhoff
Executive Vice President and Chief Financial Officer
January 20, 1994

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of U S WEST Inc.:

We have audited the accompanying consolidated balance sheets of U S WEST Inc. as of December 31, 1993 and 1992 and related consolidated statements of operations and cash flows for each of the three years ended December 31, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U S WEST Inc. as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the company discontinued accounting for the operations of U S WEST Communications Inc. in accordance with Statement of Accounting Standards No. 71. "Accounting for the Effects of Certain Types of Regulation," in 1993. As discussed in Note 10 to the consolidated financial statements, the company changed its method of accounting for postretirement benefits other than pensions and other postemployment benefits in 1992.

Coopers & Lybrand
Denver, Colorado
January 20, 1994, except for the last paragraph in Note 8 to the consolidated financial statements, as to which the date is February 23, 1994

U S WEST INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in millions (except per share amounts)	Year Ended December 31, 1993	1992	1991
Sales and other revenues	$10,293.6	$9,822.6	$9,528.1
Employee-related costs	3,630.7	3,521.1	3,303.6
Other operating expenses	2,018.7	1,960.9	1,888.6
Taxes other than income taxes	417.0	377.6	415.8
Depreciation and amortization	1,954.5	1,880.5	1,825.0
Restructuring charges	1,000.0	—	363.8
Interest expense	439.3	453.5	481.4
Other income (expense) - net	(88.7)	(59.8)	(40.6)
Income from continuing operations before income taxes	744.7	1,569.2	1,209.3
Provision for income taxes	268.8	493.4	369.7
Income from continuing operations	475.9	1,075.8	839.6
Discontinued operations:			
Income (loss), net of tax (to June 1, 1993)	38.5	103.6	(286.2)
Estimated loss from June 1, 1993 through disposal, net of tax	(100.0)	—	—
Income tax rate change	(20.0)	—	—
Income before extraordinary items and cumulative effect of change in accounting principles	394.4	1,179.4	553.4
Extraordinary items:			
Discontinuance of SFAS No. 71, net of tax	(3,123.0)	—	—
Early extinguishment of debt, net of tax	(77.2)	—	—
Cumulative effect of change in accounting principles:			
Transition effect of change in accounting for postretirement benefits other than pensions and other postemployment benefits, net of tax	—	(1,793.4)	—
Net income (loss)	$ (2,805.8)	$ (614.0)	$ 553.4
Earnings (loss) per share:			
Continuing operations	$ 1.13	$ 2.61	$ 2.09
Discontinued operations:			
Income (loss) (to June 1, 1993)	0.09	0.25	(0.71)
Estimated loss from June 1, 1993 through disposal	(0.24)	—	—
Income tax rate change	(0.04)	—	—
Extraordinary items:			
Discontinuance of SFAS No. 71	(7.45)	—	—
Early extinguishment of debt	(0.18)	—	—
Cumulative effect of change in accounting principles	—	(4.35)	—
Earnings (loss) per share	$ (6.69)	$ (1.49)	$ 1.38
Average shares outstanding (thousands)	419,365	412,518	401,332

The accompanying notes are an integral part of the Consolidated Financial Statements.

U S WEST INC.

CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1993	1992
ASSETS		
Current assets:		
Cash and cash equivalents	$ 128.2	$ 158.9
Accounts and notes receivable, less allowance for credit losses of $54.0 and $58.5, respectively	1,570.1	1,498.6
Inventories and supplies	192.7	196.6
Deferred tax asset	335.5	—
Prepaid and other	273.3	354.7
Total current assets	2,499.8	2,208.8
Property, plant and equipment - net	13,231.8	17,946.4
Investment in Time Warner Entertainment	2,552.4	—
Net investment in foreign affiliates	477.0	307.0
Net assets of discontinued operations	554.5	885.9
Other assets	1,364.2	2,112.6
Total assets	$20,679.7	$23,460.7
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,776.2	$ 582.5
Accounts payable	977.0	960.5
Employee compensation	386.3	392.4
Dividends payable	236.1	219.8
Current portion of restructuring charges	455.7	105.6
Other	1,150.2	913.1
Total current liabilities	4,981.5	3,173.9
Long-term debt	5,422.7	4,847.4
Postretirement and postemployment benefit obligations	2,698.6	2,825.0
Deferred taxes, credits and other	1,715.7	4,346.5
Shareowners' equity:		
Common shares-no par, 2,000,000,000 authorized; 448,126,801 and 421,611,063 issued; 441,139,829 and 414,461,871 outstanding, respectively	6,996.6	5,770.2
Retained earnings (deficit)	(857.1)	2,826.1
LESOP guarantee	(243.0)	(294.4)
Foreign currency translation adjustments	(35.3)	(34.0)
Total shareowners' equity	5,861.2	8,267.9
Total liabilities and shareowners' equity	$20,679.7	$23,460.7

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in millions	Year Ended December 31, 1993	1992	1991
OPERATING ACTIVITIES			
Net income (loss)	$(2,805.8)	$ (614.0)	$ 553.4
Adjustments to net income (loss):			
Depreciation and amortization	1,954.5	1,880.5	1,825.0
Discontinuance of SFAS No. 71	3,123.0	—	—
Restructuring charges	1,000.0	—	363.8
Discontinued operations	81.5	(103.6)	286.2
Cumulative effect of change in accounting principles	—	1,793.4	—
Deferred income taxes and amortization of investment tax credits	(224.3)	4.3	(148.8)
Changes in operating assets and liabilities:			
Accounts and notes receivable	(90.1)	44.1	(22.5)
Inventories, supplies and other	(55.9)	(24.5)	(38.4)
Accounts payable and accrued liabilities	198.7	65.4	(82.4)
Other - net	156.2	211.7	36.8
Cash provided by operating activities	3,337.8	3,257.3	2,773.1
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,449.2)	(2,249.6)	(2,361.2)
Investment in Time Warner Entertainment	(1,556.9)	—	—
Proceeds from disposals of property, plant and equipment	44.8	75.3	45.1
Other - net	(240.0)	(82.2)	23.0
Cash (used for) investing activities	(4,201.3)	(2,256.5)	(2,293.1)
FINANCING ACTIVITIES			
Net proceeds (repayments) of short-term debt	687.4	25.2	(241.3)
Proceeds from issuance of long-term debt	2,281.7	344.1	1,061.2
Repayments of long-term debt	(3,085.0)	(769.9)	—
Dividends paid	(812.0)	(796.0)	(755.6)
Proceeds from issuance of common stock	1,150.1	91.3	124.3
Cash provided by (used for) financing activities	222.2	(1,105.3)	188.6
Cash provided by (used for) continuing operations	(641.3)	(104.5)	668.6
Cash provided by (used for) discontinued operations	610.6	(237.5)	(386.7)
CASH AND CASH EQUIVALENTS			
Increase (decrease)	(30.7)	(342.0)	281.9
Beginning balance	158.9	500.9	219.0
Ending balance	$ 128.2	$ 158.9	$ 500.9

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The Consolidated Financial Statements include the accounts of U S WEST Inc. ("U S WEST" or the "company") and its majority-owned subsidiaries, except for discontinued operations as discussed in Note 13 to the Consolidated Financial Statements. All significant intercompany accounts and transactions have been eliminated. Investments in partnerships, joint ventures and less than majority-owned subsidiaries are generally accounted for using the equity method.

In the third quarter of 1993, U S WEST discontinued accounting for its regulated telephone operations, hereafter referred to as U S WEST Communications, under Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." (See Note 4 to the Consolidated Financial Statements.)

U S WEST operates in one industry segment (Communications and Related Services) as defined in SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." The company's Capital Assets segment has been discontinued. The largest volume of the company's services are provided to American Telephone and Telegraph Company. During 1993, 1992 and 1991 revenues related to those services provided to AT&T were $1,160, $1,203, and $1,267, respectively. Related accounts receivable at December 31, 1993, and 1992, totaled $96.9 and $109.2, respectively.

Certain reclassifications within the financial statements have been made to conform to the current year presentation.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

INVENTORIES AND SUPPLIES: New and reusable materials of U S WEST Communications are carried at average cost, except for significant individual items that are valued based on specific costs. Non-reusable material is carried at its estimated salvage value. Inventories of U S WEST's non-telephone operations are carried at the lower of cost or market on a first-in, first-out basis.

PROPERTY, PLANT AND EQUIPMENT: The investment in property, plant and equipment is carried at cost, less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Costs for normal repair and maintenance of property, plant and equipment are charged to expense as incurred.

U S WEST Communications' provision for depreciation of property, plant and equipment is based on various straight-line group methods using remaining useful (economic) lives based on industry-wide studies. (See Note 4 to the Consolidated Financial Statements.) Prior to discontinuing SFAS No. 71, depreciation was based on lives specified by regulators. When the depreciable property, plant and equipment of U S WEST Communications is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

The non-telephone operations of U S WEST provide for depreciation using both straight-line and accelerated methods. When such depreciable property, plant and equipment is retired or sold, the resulting gain or loss is recognized currently as an element of other income.

Interest related to qualifying construction projects is capitalized and is reflected as a reduction of interest expense, except at U S WEST Communications where, prior to discontinuing SFAS No. 71, it was included as an element of other income. Amounts capitalized by U S WEST were $19.5, $28.8, and $35.9 in 1993, 1992, and 1991, respectively.

INTANGIBLE ASSETS: The excess of consideration over the fair value of net assets acquired, and the costs of licenses and other identifiable intangible assets, are amortized by the straight-line method over periods ranging up to 40 years.

FOREIGN CURRENCY TRANSLATION: For international investments, assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates for the year. Resulting translation adjustments are recorded as a separate component of shareowners' equity.

REVENUE RECOGNITION: Local telephone service and cellular access revenues are generally billed monthly, in advance, and revenues are recognized the following month when services are provided. Revenues derived from other telephone services, including exchange access, long distance and cellular airtime usage, are billed and recorded monthly as services are provided.

Directory advertising revenues and related directory costs are generally deferred and recognized over the period during which directories are utilized, normally 12 months. The balance of deferred directory costs included in prepaid and other is $197.2 and $186.8 at December 31, 1993 and 1992, respectively.

FINANCIAL INSTRUMENTS: Net interest income or expense on interest rate swaps is recognized over the life of the swaps as an adjustment to interest expense. Gains and losses on forward contracts, designated and effective as hedges of interest rate exposure on debt refinancings, are deferred and recognized as an adjustment to interest expense over the life of the underlying debt. Gains and losses on foreign currency forward contracts, designated and effective as hedges, are deferred and recognized with the assets, liabilities or transactions being hedged.

INCOME TAXES: The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods in accordance with SFAS No. 109. U S WEST implemented SFAS No. 109, "Accounting for Income Taxes," in 1993. Adoption of the new standard did not have a material effect on the financial position or results of operations, primarily because of the company's earlier adoption of SFAS No. 96.

For financial statement purposes, investment tax credits of U S WEST Communications are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

EARNINGS (LOSS) PER SHARE: Earnings (loss) per share are computed on the basis of the weighted average number of shares of common stock outstanding during each year.

NOTE 2: INVESTMENT IN TIME WARNER ENTERTAINMENT

On September 15, 1993, U S WEST acquired 25.51 percent pro-rata priority capital and residual equity interests in Time Warner Entertainment Company L.P. ("TWE") for an aggregate purchase price of $2.553 billion, consisting of $1.532 billion in cash and $1.021 billion in the form of a four-year promissory note bearing interest at a rate of 4.391 percent per annum. TWE owns and operates substantially all of the entertainment assets previously owned by Time Warner Inc., consisting primarily of its filmed entertainment, programming-HBO and cable businesses. As a result of U S WEST's admission to the partnership, certain wholly-owned subsidiaries of Time Warner ("General Partners") and subsidiaries of Toshiba Corporation and ITOCHU Corporation hold pro-rata priority capital and residual equity interests of 63.27, 5.61 and 5.61 percent, respectively. In connection with the TWE investment, the company acquired 12.75 percent of the common stock of Time Warner Entertainment Japan Inc., a joint venture company established to expand and develop the market for entertainment services in Japan.

The company has an option to increase its pro-rata priority capital and residual equity interests in TWE from 25.51 percent up to 31.84 percent depending upon cable operating performance, as defined in the TWE Partnership Agreement. The option is exercisable, in whole or part, between January 1, 1999 and May 31, 2005 for an aggregate cash exercise price of $1.25 billion to $1.8 billion, depending upon the year of exercise. Either TWE or U S WEST may elect that the exercise price for the option be paid with partnership interests rather than cash.

Pursuant to the TWE Partnership Agreement and U S WEST Admission Agreement, there are six levels of capital. From the most to least senior, the capital accounts are: senior preferred (held by the General Partners); A preferred (held pro rata by all partners); B, C and D preferreds (all held by the General Partners); and common (residual equity interests held pro rata by all partners). Of the $2.553 billion contributed by U S WEST, $1.658 billion represents A preferred capital and $895 represents common capital. The TWE Partnership Agreement provides for special allocations of income and distributions of partnership capital, which are based on the fair value of assets contributed to the partnership. Partnership income, to the extent earned, is allocated as follows: (1) to the partners so that the economic burden of the income tax consequences of partnership operations is borne as though the partnership was taxed as a corporation ("special tax income"); (2) to the partners' preferred capital accounts in order of priority shown above, at various rates of return ranging from 8 percent to 13.25 percent; and (3) to the partners' common capital according to their residual partnership interests. To the extent partnership income is insufficient to satisfy all special allocations in a particular accounting period, the unearned portion is carried over until satisfied out of future partnership income. Partnership losses generally will be allocated in reverse order, first to eliminate prior allocations of partnership income, except senior preferred and special tax income, next to reduce initial capital amounts, other than senior preferred, then to reduce the senior preferred account and finally, to eliminate special tax income. Also, the senior preferred is scheduled to be distributed in three annual installments beginning July 1, 1997. The value of the C and D preferreds will be determined at future dates and is dependent upon achievement of certain operating targets between 1992 and 2001.

Beginning July 1, 1994, the TWE Partnership Agreement generally permits cash distributions to the partners to pay applicable taxes on their allocable taxable income from TWE. In addition, beginning July 1, 1995, and subject to restricted payment limitations and availability under the applicable financial ratios contained in the TWE Credit Agreement, distributions other than tax-related distributions are also permitted. For other than distributions related to taxes or the senior preferred, the TWE Partnership Agreement requires certain cash distribution thresholds be met to the limited partners before the General Partners receive their full share of distributions.

The company accounts for its investment in TWE under the equity method of accounting. The company's recorded share of TWE operating results represents allocated TWE net income or loss adjusted for the amortization of the excess of fair market value over the book value of the partnership assets. This excess is being amortized on a straight-line basis over 25 years. As a result of this amortization and the special income allocations described above, U S WEST's recorded share of TWE's 1993 operating results was not material. Furthermore, it is not expected that material amounts of TWE's operating results will be allocated to the company in the initial years of the partnership.

As consideration for its expertise and participation in the cable operations of TWE, the company is entitled to a management fee of $130 payable over five years.

Summarized financial information for TWE is presented below:

Summarized Operating Results	Year ended December 31, 1993
Revenues	$ 7,946
Operating expenses*	(7,063)
Interest and other - net**	(611)
Income before income taxes and extraordinary item	$ 272
Net income	$ 198

*Includes depreciation and amortization of $902

**Includes corporate services of $60

Summarized Financial Position	December 31, 1993
Current assets	$ 3,745
Non-current assets	14,218
Current liabilities	2,265
Non-current liabilities	8,162
Senior preferred capital	1,536
Partners' capital	6,000

NOTE 3: RESTRUCTURING CHARGES

The company's 1993 operating results reflect a pretax restructuring charge of $1 billion. The restructuring charge includes only the specific incremental and direct costs that can be estimated with reasonable accuracy and are clearly identifiable with the related plan.

The restructuring plan is designed to provide faster, more responsive customer services, while reducing the costs of providing these services. As part of the plan, the company will develop new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so customers can have their telecommunications needs resolved with one phone call. The company will also reduce its work force by approximately 8,000 employees by the end of 1996 (in addition to a remaining reduction of 1,000 employees pursuant to the 1991 restructuring plan) and consolidate the operations of its existing 560 customer centers into 26 centers in 10 cities.

Following is a schedule of the costs included in the restructuring charge:

Employee separation	$ 240
Real estate	120
Relocation	110
Retraining and other	65
Systems development	400
Asset write-downs	65
Total	**$1,000**

Employee separation costs include severance payments, health care coverage and postemployment education benefits. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the sites of the new service centers and retraining employees on the new methods and systems required in the new, restructured mode of operation. Systems costs include the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. The work-force reductions would not be possible without the development and installation of the new systems, which will eliminate the current, labor-intensive interfaces between existing systems.

The company's 1991 restructuring plan included a pretax charge of $363.8 due to planned work-force reductions and the write-off of certain intangible and other assets. The work-force reductions covered approximately 6,000 employees, of which approximately 5,000 have left the company as of December 31, 1993. The portion of the 1991 restructuring charge related to work-force reductions was $240, of which approximately $56 was unused at December 31, 1993.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The composition of property, plant and equipment follows:

	December 31,	
	1993	1992
Land and buildings	$ 2,521.4	$ 2,433.1
Telephone network equipment and outside plant	22,479.1	21,242.7
Other	3,568.7	3,245.0
Construction in progress	592.2	682.6
	29,161.4	27,603.4
Less accumulated depreciation on:		
Buildings	656.0	530.0
Telephone network equipment and outside plant	13,389.1	7,821.9
Other	1,884.5	1,305.1
	15,929.6	9,657.0
Property, plant and equipment - net	$13,231.8	$17,946.4

Accumulated depreciation reflects an increase of $5,151 as of third quarter 1993 in conjunction with the company's decision to discontinue accounting for the operations of U S WEST Communications in accordance with SFAS No. 71.

Discontinuance of SFAS No. 71

U S WEST incurred a non-cash, extraordinary charge of $3.1 billion, net of an income tax benefit of $2.3 billion, in conjunction with its decision to discontinue accounting for the operations of U S WEST Communications in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as of September 30, 1993. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, competition notwithstanding, by charging its customers at prices established by its regulators. U S WEST's decision to discontinue application of SFAS No. 71 was based on the belief that competition, market conditions and the development of broadband technology, more than prices established by regulators, will determine the future revenues of U S WEST Communications. As a result of this change, the remaining asset lives of U S WEST Communications' plant have been shortened to more closely reflect the useful (economic) lives of such plant.

Following is a list of the major categories of property, plant and equipment and the manner in which lives were affected by the discontinuance of SFAS No. 71:

	Average Life (years)	
Category	Before Discontinuance	After Discontinuance
Digital switch	17-18	10
Digital circuit	11-13	10
Aerial copper cable	18-28	15
Underground copper cable	25-30	15
Buried copper cable	25-28	20
Fiber cable	30	20

Following is a schedule of the nature and amounts of the after-tax charge recognized as a result of the company's discontinuance of SFAS No. 71:

Plant-related	$3,124
Tax-related regulatory assets and liabilities	(208)
Other regulatory assets and liabilities	207
Total	$3,123

NOTE 5: DEBT

Short-term Debt

The components of short-term debt follow:

	December 31,	
	1993	1992
Notes payable:		
Commercial paper	$1,027.7	$306.6
Other	1.6	35.5
Current portion of long-term debt, including $450.0 payable to TWE in 1993	794.7	329.7
Allocated to discontinued operations - net	(47.8)	(89.3)
Total	$1,776.2	$582.5

Long-term Debt

Long-term debt consists principally of debentures and medium-term notes, debt associated with the company's Leveraged Employee Stock Ownership Plans (LESOP), and zero-coupon, subordinated notes convertible at any time into U S WEST common shares. The zero-coupon notes have a yield to maturity of approximately 7.3 percent and are recorded at a discounted value of $479.6. Long-term debt also includes a $555.2 note payable to TWE in 1993.

Interest rates and maturities of long-term debt at December 31 follow:

	Maturities					Total	Total
Interest rates	1995	1996	1997	1998	Thereafter	1993	1992
Up to 5%	$450.0	$118.3	$ —	$ 35.4	$ 240.0	$ 843.7	$ 479.4
Above 5% to 6%	—	—	—	300.0	261.0	561.0	196.1
Above 6% to 7%	91.5	—	1.2	—	1,289.7	1,382.4	330.7
Above 7% to 8%	—	670.0	16.0	—	1,375.2	2,061.2	2,367.1
Above 8% to 9%	21.3	33.9	—	—	448.9	504.1	1,915.2
Above 9% to 10%	—	0.7	28.7	—	370.0	399.4	399.5
	$562.8	$822.9	$45.9	$335.4	$3,984.8	5,751.8	5,688.0
Capital lease obligations and other						139.5	90.7
Unamortized discount - net						(101.4)	(180.7)
Allocated to discontinued operations - net						(367.2)	(750.6)
Total						$5,422.7	$4,847.4

During 1993, U S WEST refinanced debt issues aggregating $2.7 billion in principal amount. Expenses associated with the refinancing resulted in an extraordinary charge to income of $77.2, net of a tax benefit of $47.8. The refinancing allowed the company to take advantage of favorable interest rates.

U S WEST is permitted to borrow up to approximately $3 billion under short-term formal lines of credit, all of which were available at December 31, 1993.

Interest payments, net of amounts capitalized, were $679.8, $704.1, and $740.9 for 1993, 1992, and 1991, respectively, of which $212.4, $220.3 and $257.9, respectively, relate to discontinued operations.

NOTE 6: LEASING ARRANGEMENTS

U S WEST has entered into operating leases for office facilities, equipment and real estate. Minimum future lease payments as of December 31, 1993, under non-cancellable operating leases, follow:

Year	
1994	$ 161.5
1995	141.4
1996	125.7
1997	121.3
1998	120.5
Thereafter	1,041.5
Total	$1,711.9

Rent expense under operating leases was $274.8, $274.1, and $215.2 in 1993, 1992 and 1991, respectively.

NOTE 7: FINANCIAL INSTRUMENTS DISCLOSURES

Instruments With Off-Balance Sheet Market Risk - Swaps and Forward Contracts

U S WEST is party to various interest rate swaps and forward contracts for the purpose of managing interest rate and foreign currency exposures. Based on amounts outstanding at December 31, 1993, if any party to these agreements fails to perform, the estimated accounting loss would not be material to the company's results of operations or to its financial position.

Instruments With Off-Balance Sheet Credit Risk - Financial Guarantees

Financial guarantees are included in Note 13 to the Consolidated Financial Statements.

Fair Values of Financial Instruments

Fair values of cash equivalents, short-term debt and other current amounts receivable and payable approximate the carrying amount.

Amounts receivable and payable related to foreign currency forward contracts, which are used to hedge foreign commitments, are recorded at fair value based on currency exchange rates in effect at the balance sheet date.

Fair value of debt, inclusive of discontinued operations, is based on quoted market prices where available or, if not available, is based on discounting future cash flows using current interest rates. Fair value of debt includes the effect of variable-to-fixed and fixed-to-variable interest rate swaps on notional principal amounts of $795 and $515 at December 31, 1993, and $1,000 and $440 at December 31, 1992, respectively. Maturities on interest rate swaps in effect at December 31, 1993, range from 1994 to 2004. Fair value of interest rate swaps is based on estimated amounts the company would receive or pay to terminate such agreements taking into account current interest rates and creditworthiness of the counterparties.

The carrying amounts and fair values of total debt follow:

	December 31,	
	1993	1992
Carrying amount	$8,694.7	$8,863.0
Fair value	9,000.0	9,070.0

Includes both continuing and discontinued operations debt.

NOTE 8: SHAREOWNERS' EQUITY

Following are transactions affecting shareowners' equity:

	Common Shares		Retained Earnings (Deficit)	Foreign Currency Translation Adjustments
	Shares (thousands)	Amount		
BALANCE AT JANUARY 1, 1991	393,493	$5,013.3	$4,605.4	$ 6.2
Issuance of treasury shares	1,337	49.0		
Issuance of common stock	15,106	545.2		
Net income			553.4	
Dividends ($2.08 per share)			(842.7)	
Foreign currency translation adjustments				0.3
Other - net		(1.0)		
BALANCE AT DECEMBER 31, 1991	409,936	5,606.5	4,316.1	6.5
Issuance of treasury shares	578	20.4		
Issuance of common stock	3,948	144.4		
Net loss			(614.0)	
Dividends ($2.12 per share)			(876.0)	
Foreign currency translation adjustments				(40.5)
Other - net		(1.1)		
BALANCE AT DECEMBER 31, 1992	414,462	5,770.2	2,826.1	(34.0)
Issuance of treasury shares	162	6.3		
Issuance of common stock	26,516	1,223.5		
Net loss			(2,805.8)	
Dividends ($2.14 per share)			(904.7)	
Foreign currency translation adjustments				(1.3)
Market value adjustment for debt securities			35.1	
Other - net		(3.4)	(7.8)	
BALANCE AT DECEMBER 31, 1993	441,140	$6,996.6	$ (857.1)	$(35.3)

U S WEST has 50,000,000 authorized shares of preferred stock, of which none have been issued.

At December 31, 1993, the company held 6,986,972 treasury shares with a cost basis of $142.7.

During fourth quarter 1993, the company issued 22 million shares of U S WEST common stock for cash proceeds of $1,020.0. The company used the net proceeds to reduce short-term indebtedness, including indebtedness incurred in connection with the TWE investment, and for general corporate purposes.

On July 11, 1991, shareowners of U S WEST NewVector Group Inc. ("NewVector") voted to approve the company's merger offer, making NewVector a wholly-owned subsidiary of U S WEST. Pursuant to the merger, the company issued approximately 11.1 million shares of U S WEST common stock valued at approximately $399 to former shareholders of NewVector. The merger was accounted for as a purchase and the resulting goodwill of approximately $375 is being amortized on a straight-line basis over a period of 40 years.

Leveraged Employee Stock Ownership Plans (LESOP)

U S WEST maintains employee savings plans for management and occupational employees under which the company matches a certain percentage of eligible contributions made by employees with shares of company stock. The company established two LESOPs in 1989 to provide the company stock used for matching contributions to the savings plans.

The long-term debt of the LESOP trusts, which is unconditionally guaranteed by the company, is included in the accompanying consolidated balance sheets and corresponding amounts have been recorded as reductions to shareowners' equity. The trusts will repay the debt with company contributions and certain dividends received on shares of the company's common stock held by the LESOP. Total company contributions to the trusts (excluding dividends) were $74.6, $77.7, and $70.9 in 1993, 1992, and 1991, respectively, of which $23.7, $27.8, and $31.7, respectively, have been classified as interest expense. The company recognizes expense based on the cash payments method. Dividends on unallocated shares held by the LESOP were $14.1, $17.3, and $20.1 in 1993, 1992, and 1991, respectively.

Shareholder Rights Plan

The board of directors of the company has adopted a Shareholder Rights Plan which, in the event of a takeover attempt, would entitle existing shareowners to certain preferential rights. The rights expire on April 6, 1999, and are redeemable by the company at any time prior to the date they would become effective.

Subsequent Event

In connection with the settlement of shareowner litigation ("Rosenbaum v. U S WEST Inc. et al."), the company will issue approximately 5.6 million shares of U S WEST common stock in March 1994 for proceeds of approximately $210 to class members connected with this litigation. U S WEST issued, to certified class members, non-transferable rights to purchase shares of common stock directly from U S WEST, on a commission-free basis, at a 3 percent discount from the average of the high and low trading prices of such stock on the New York Stock Exchange on February 23, 1993, the pricing date designated in accordance with the settlement.

NOTE 9: STOCK INCENTIVE PLANS

U S WEST maintains stock incentive plans for executives and key employees. The Human Resources Committee of the board of directors is responsible for the administration of the executive plan, which provides for the grant of options and the grant and sale of restricted and non-restricted stock. The board of directors has delegated the administration of the non-executive plan to a special committee. Options may be exercised no later than ten years and one month after the grant date. A total of 17,000,000 shares of U S WEST common stock are reserved for issuance under the plans.

Data for outstanding options under the plan is summarized below:

	Number of Shares	Average Option Price
OUTSTANDING AT JANUARY 1, 1991	2,306,783	$32.15
Granted	1,415,502	35.30
Exercised	(277,760)	25.91
Cancelled or expired	(24,119)	35.34
OUTSTANDING AT DECEMBER 31, 1991	3,420,406	33.97
Granted	1,410,311	38.13
Exercised	(327,221)	26.15
Cancelled or expired	(53,346)	36.17
OUTSTANDING AT DECEMBER 31, 1992	4,450,150	35.81
Granted	1,486,106	48.83
Exercised	(412,444)	31.73
Cancelled or expired	(222,273)	36.87
OUTSTANDING AT DECEMBER 31, 1993	5,301,539	$39.76

Options to purchase 1,412,791 and 913,312 shares were exercisable at December 31, 1993 and 1992, respectively. A total of 8,649,750 and 10,111,549 shares of U S WEST common stock were available for grant under the plans at December 31, 1993 and 1992, respectively.

NOTE 10: EMPLOYEE BENEFITS

Pension Plan

Effective January 1, 1993, U S WEST merged its two defined benefit pension plans, which cover substantially all management and occupational employees, into a single plan. Management benefits are based upon a final pay formula, while occupational benefits are based upon a flat benefit formula. U S WEST uses the projected unit credit method for the determination of pension cost for financial reporting purposes and the aggregate cost method for funding purposes. No funding was required in 1993, 1992 or 1991.

The composition of the net pension credit and the actuarial assumptions of the plan follow:

	Year Ended December 31,		
	1993	1992	1991
Details of pension credit:			
Service cost - benefits earned during the period	$ 148.2	$ 141.1	$ 124.0
Interest cost on projected benefit obligation	513.9	479.6	466.0
Actual return on plan assets	(1,320.1)	(410.8)	(1,312.0)
Net amortization and deferral	577.9	(318.3)	613.4
Net pension credit	$ (80.1)	$(108.4)	$ (108.6)

The expected long-term rate of return on plan assets used in determining the net pension credit was 9.00 percent for 1993, 9.25 percent for 1992 and 9.50 percent for 1991.

The funded status of the plan follows:

	December 31,	
	1993	1992
Accumulated benefit obligation, including vested benefits of $5,286 and $4,867, respectively	$5,860.0	$5,192.0
Plan assets at fair value, primarily stocks and bonds	$8,987.3	$8,068.8
Less: Projected benefit obligation	7,432.0	6,555.0
Plan assets in excess of projected benefit obligation	1,555.3	1,513.8
Less: Unrecognized net gain	70.5	24.1
Prior service cost not yet recognized in net periodic pension cost	72.3	77.3
Balance of unrecognized net asset at January 1, 1987	865.0	945.0
Prepaid pension asset	$ 547.5	$ 467.4

The actuarial assumptions used to calculate the projected benefit obligation follow:

	December 31,	
	1993	1992
Discount rate	7.25	8.25
Rate of increase in future compensation levels	5.50	5.50

Anticipated future benefit changes have been reflected in the above calculations.

Postretirement Benefits Other Than Pensions

U S WEST and most of its subsidiaries provide certain health care and life insurance benefits to retired employees. Effective January 1, 1992, U S WEST adopted SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," which mandates that employers reflect in their current expenses the cost of providing retirement medical and life insurance benefits to current and future retirees. Prior to 1992, U S WEST recognized these costs as they were paid. Adoption of SFAS No. 106 resulted in a one-time, non-cash charge against 1992 earnings of $1,740.7, net of a deferred income tax benefit of $1,037.7, for the prior service of active and retired employees. U S WEST uses the projected unit credit method for the determination of postretirement medical costs for financial reporting purposes.

In conjunction with the adoption of SFAS No. 106, for financial reporting purposes the company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets. In 1992, pursuant to SFAS No. 71, a regulatory asset associated with the recognition of the transition benefit obligation was not recorded because of uncertainties as to the timing and extent of recovery given the company's assessment of its long-term competitive environment. However, the Federal Communications Commission and certain state jurisdictions permit amortization of the transition obligation over the average remaining service period of active employees for regulatory accounting purposes.

The composition of net postretirement benefit costs and actuarial assumptions underlying plan benefits follow:

	Year Ended December 31,	
	1993	1992
Details of postretirement benefit costs:		
Service cost - benefits earned during the period	$ 71.1	$ 66.9
Interest cost on accumulated benefit obligation	271.0	255.9
Actual return on plan assets	(125.0)	(47.8)
Net amortization and deferral	48.9	—
Net postretirement benefit costs	$ 266.0	$275.0

The expected long-term rate of return on plan assets used in determining net postretirement benefit costs was 9.00 percent in 1993 and 1992.

The funded status of the plan follows:

	December 31,	
	1993	1992
Accumulated postretirement benefit obligation attributable to:		
Retirees	$ 2,105.5	$2,089.5
Fully eligible plan participants	322.3	257.2
Other active plan participants	1,153.0	1,035.7
Total accumulated postretirement benefit obligation	3,580.8	3,382.4
Unrecognized net gain	40.8	—
Fair value of plan assets, primarily stocks, bonds and life insurance	(1,001.3)	(635.9)
Accrued postretirement benefit obligation	$ 2,620.3	$2,746.5

The actuarial assumptions used to calculate the accumulated postretirement benefit obligation follow:

	December 31,	
	1993	1992
Discount rate	7.25	8.00
Medical trend*	10.30	11.00

*Medical cost trend rate gradually declines to an ultimate rate of 5.5 percent in 2011.

A 1-percent increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1993 net postretirement benefit costs by approximately $55 and increased the 1993 accumulated postretirement benefit obligation by approximately $475.

For U S WEST Communications, the annual amount funded will generally follow the amount of expense allowed in regulatory jurisdictions.

Anticipated future benefit changes have been reflected in the above calculations.